Key Questions

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What Can We Learn About Investing From the Legacy of Bobby Knight?

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The Key Wealth Institute is a team of highly experienced professionals from across wealth management, dedicated to delivering commentary and financial advice. From strategies to manage your wealth to the latest political and industry news, the Key Wealth Institute provides proactive insights to help grow your wealth.

Serendipity struck as the TV in my home office captured my attention with the broadcast of the Indiana versus Army men's college basketball game this past weekend. Not only are there multiple connections between college basketball and investing (two of my favorite things), but there are also connections for me, and our place in society as a whole, in two very real and relevant ways.

First, we live in a time when there is geopolitical unrest, war, and horrible suffering — I express my sincere empathy for those affected. Also, this past weekend we celebrated Veterans Day — I express my sincere gratitude for those who have served and currently serve in the military (and their families) to protect our great country and democracy.

Second, my father served in the Army in the Korean War and also spent time at Indiana University. And more recently, I had the opportunity to see and hear the lore of Bobby Knight second-hand. I have visited Bloomington many times over the past four years, including watching a few Hoosier games from the iconic Simon Skjodt Assembly Hall with my daughter, a student there.

These interconnected themes bring us back to basketball and to the legacy of Robert Montgomery "Bobby" Knight, the famed Indiana Hoosier basketball coach who died earlier this month. After a successful career as a player on the Ohio State 1960 championship team, he coached at Army for five years before his legendary run as the head coach for Indiana for three decades.

In many ways, Bobby Knight is loved, lauded, and revered for his success. Known as The General, he amassed three national championships, 11 Big Ten Conference championships, 902 career victories, an Olympic gold medal for the 1984 USA team, and a perfect season when the 1975 – 1976 team went undefeated during the regular season and won the 1976 NCAA tournament. Furthermore, he was known for being a tremendous friend, mentor, and motivator; for his generosity; and for having one of the highest graduation rates for his players.

On the other hand, his legacy is also mired in controversy for his often-displayed temper (including the infamous chair-throwing episode). And he was criticized for his treatment of players during his tenure at Indiana, which ultimately led to his dismissal in 2000.

How does Bobby Knight's coaching legacy relate to successful investing?

Although there are many similarities between successful coaching and successful investing, as a metaphor for the number of basketball players on the floor for each team, here are the top 5 principles to consider:

1. Perfection is rare, if not impossible. Strive for wins but anticipate losses.

Over the course of his 42-year career, wins were prevalent (including the 1976 perfect season), but losses still occurred. Knight's career winning percentage was 71%. Similarly, over the past nearly 100 years, the S&P 500 winning percentage is approximately 75%, indicating that the annual return for the index was positive three-fourths of the time and negative one-fourth of the time. Stay invested for the long-term. There will be ups and downs, so time in the market will help you win. This contrasts with both timing the market, which is difficult, and overemphasizing losses, which cannot be avoided and instead should be expected to occur.

2. Follow a prudent process. Maintain consistency.

Coach Knight's legend includes a disciplined, regimented process of running practice and executing strategy during games. This consistency led to obvious success. Investing also requires consistency — not only for matching investors' goals to their risk tolerance, time horizon, and investment strategy, but also for maintaining consistency in saving, allocating capital, and selecting investment managers that demonstrate consistency in their process and performance.

3. Prepare for the future. Develop and execute a written financial plan.

As Knight said, "The will to win is not nearly as important as the will to prepare to win. Everyone wants to win, but not everyone wants to prepare to win." Many studies in the financial industry indicate that those individuals who embrace a financial plan are more successful than those who don't.

A written financial plan is the ultimate preparation tool for investing. Components include retirement planning, estate planning, tax planning — to mention just a few — in addition to developing an investment policy statement. This will help guide your investment strategy in advance, so you're prepared for times when markets are good and also for times when they are not.

4. Have a great offense but have an even better defense.

Over his career, The General was known for cultivating great defensive teams. They exuded tenacity on the court and limited the opponents' scoring, while boasting well-orchestrated, above-average offenses. Executing a sound investment strategy incorporates similar thinking. Supplemental to investing for the long-term, calibrating one's risk tolerance and risk capacity is essential for successful investing.

Building a risk-appropriate portfolio, focused on defending against losses in general, allows for the ability to also take appropriate levels of risk for future gains. Moreover, although never fully guaranteed, having a good defensive/risk-appropriate strategy can help investors avoid the perils of the too-good-to-be-true investment opportunities, like those pitched by Bernie Madoff or Sam Bankman-Fried.

5. Adjust your investment strategy over time, when warranted.

Many critics of Bobby Knight cite the main reasons for his demise and dismissal from Indiana, which were related to his ego and his failure to adjust his coaching approach to the changing times. As the world evolves, just like the investing landscape, things change. Many basketball intellectuals point to Mike Krzyzewski as an example of how to capture the positive coaching attributes of a mentor while also curtailing the less favorable characteristics. The famous former Duke men's basketball coach and protégé of Knight's (Krzyzewski played on the Army team Knight coached) won five national championships with the Blue Devils.

Whether considering new markets, new investment strategies, or new technology — your investment strategy should be balanced between maintaining time-tested investing principles (diversification, indexing) and embracing modernization. Examples include ETFs, alternatives, private capital, low-cost commissions, personalized portfolios, ESG/impact investing, and tax-loss harvesting strategies, just to name a few.

In conclusion, both investing and college basketball include moments of euphoria as well as madness. Keeping these five principles in mind can help you reach your financial goals (and maybe even the Final Four).

For more information, please contact your advisor.

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